

Purdue University

Purdue e-Pubs

---

Historical Documents of the Purdue  
Cooperative Extension Service

Department of Agricultural Communication

---

2-1-1981

## Risk Protection for Young Families

Jean W. Bauer

Follow this and additional works at: <https://docs.lib.purdue.edu/agext>

Dollar Sense

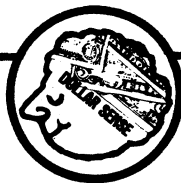
---

Bauer, Jean W., "Risk Protection for Young Families" (1981). *Historical Documents of the Purdue Cooperative Extension Service*. Paper 1026.  
<https://docs.lib.purdue.edu/agext/1026>

For current publications, please contact the Education Store: <https://mdc.itap.purdue.edu/>

This document is provided for historical reference purposes only and should not be considered to be a practical reference or to contain information reflective of current understanding. For additional information, please contact the Department of Agricultural Communication at Purdue University, College of Agriculture: <http://www.ag.purdue.edu/agcomm>

This document has been made available through Purdue e-Pubs, a service of the Purdue University Libraries. Please contact [epubs@purdue.edu](mailto:epubs@purdue.edu) for additional information.



# RISK PROTECTION FOR YOUNG FAMILIES

by Joan W. Bauer  
Family Resource Management Extension Specialist

Risk protection, or insurance, is not just something to compete for your limited dollars; it protects you and your family against a major financial loss. If people depend upon you for financial support, consider protecting them through insurance on yourself.

Generally, families insure against three types of loss: life, health, and property. There are many kinds of policies covering each of these types of loss.

This bulletin explores the types of losses and the major types of insurance for these losses.

## HEALTH INSURANCE

Health insurance for a member of a young family is expensive if it is purchased by the individual. Many employers include health insurance as an employment benefit. Sometimes the employee does not have a choice of taking the insurance or not; he or she is automatically covered. Family plans often can be purchased by the employee.

Group health insurance, provided by an employer, is less expensive because more people are enrolled in the plan, and thus the risk or potential cost per person is less. The risk is spread over a greater number of persons, and the company's chances of having to pay claims on all the persons insured is less. You probably know people who have never made a claim against their health insurance, while others routinely make claims. Group insurance also can be purchased through many professional, fraternal, or other organized groups.

There are two basic types of health insurance:

**Hospital-Medical-Surgical** covers hospital care and doctor bills for services performed in the hospital. In some cases this covers surgery performed in the doctor's office.

**Major Medical** expands the basic hospital-medical-surgical coverage to include such charges as medication and blood, as well as hospital charges for prolonged hospital care.

Before buying health insurance ask:

- How many days in the hospital are covered?
- How much will the policy pay per day for room and board?
- How do the policy payments for room and board compare with average charges for room and board in your community?
- How much does the policy pay for related hospital expenses—anaesthesia, X-rays, drugs, etc.?
- Are there waiting periods before certain personal conditions are covered?
- Is a deductible charged toward hospital expenses before benefits begin?
- Is the policy renewable? Under what terms?
- What are the limitations or exclusions of the policy?

## LIFE INSURANCE

Life insurance is protection against loss of income or expenses due to an untimely death. The amount of life insurance needed by each family member varies with the number of dependents and life cycle of each individual family member. A single person or couple without children needs considerably less life insurance than a single parent or a couple with children. The more dependents an individual has, the more insurance that person needs. Life insurance in this case is used as a substitute for the income from the deceased.

Before deciding if or how much life insurance is needed, ask yourself:

- How much income or economic contribution will be lost with the death of this family member?
- How many dependents must be provided for by some means and for how long? Parents of preschoolers have a longer, therefore larger risk to cover than do parents of teen-age children.
- Are there other sources of income available for the family to use in case of death if the insured is the major income or source provider? If not, then insurance is needed.

There are many different ways to insure a life, and these all cost different amounts. The basic types of life insurance are:

**Whole permanent life** is the basic life insurance policy. Like the general practitioner or family doctor in medicine, whole permanent life or straight life is general or all-purpose lifetime insurance, in contrast to specialized types designed to serve particular needs. It is a level premium insurance, in which the price is the same each year. It has the lowest premium (what you pay and how often) of any whole life policy, and like all policies with the cash value feature, it has forfeit provisions if you stop paying premiums.

**Term insurance** provides protection for a given period of time. Its benefits are payable only if the policyholder dies within the given period, which may be one year, 5 years, 10 years, or before age 65, depending on the particular policy. Term insurance premiums are lower than either whole permanent life or endowment insurance because it provides only protection for the time purchased. It does not, as a rule, build any cash value. Cash value is the amount of money you get when you surrender the policy for cash. Term policies may be convertible or nonconvertible. A convertible policy may be exchanged later when you can better afford it, for a higher premium whole life policy without taking a medical examination. Term policies are also renewable or nonrenewable. If the policy is renewable, the company agrees to extend the policy at its expiration for the same amount and the same length of time (at a higher premium) without a medical examination. The renewable privilege usually does not extend beyond a certain age—often 55 or 60. The annual premium for term insurance is less for a given amount of coverage than whole life or endowment insurance. When you renew a term policy, however, the premium for the next term goes up.

**Endowment** is insurance plus an investment program. Endowments can be purchased in different amounts and for varying lengths of time, such as 10, 15, 20 and 30 years. Premiums are higher for endowments than for whole life policies, so they build up cash values more rapidly than other types of life insurance policies. The cash value of an endowment policy equals its face value (the sum paid if you die) at the end of the specified period. The face amount of an endowment policy is paid to the policyholder at the end of the policy period, after which the insurance ends. However, if the policyholder should die before the policy matures, the proceeds are paid to the beneficiary. Endowments are often used to accumulate funds to pay college costs or some other financial goal. For this purpose, the family wage earner may buy a 15- or 20-year endowment on his life. Endowments are also used to provide additional income for retirement years. The price of a long term endowment is considerably lower than that of a short term endowment for the same amount.

The most economical insurance to provide the young family with the most insurance over a period of greatest need is the renewable term insurance. In general, most insurance agents will not try to sell this type of insurance because the commission from many of the insurance companies is lower for term insurance than for whole life or endowment plan. Keep this in mind as you buy life insurance.

Social Security also provides life insurance for the young family with dependents. Social Security provides the insured worker with income for dependents in case of death or disability. It also has a small death benefit payment for last expenses.

Social Security coverage has changed over the years and probably will continue to change. The Social Security benefits received by the dependents were never intended to take care of the total living of the worker's dependents, but to supplement other sources of life insurance coverage.

How much life insurance do you have, and what is its value? Use the chart at the end of the bulletin to look at your risk protection (p. 4).

## PROPERTY INSURANCE

Property insurance covers items that you own that you cannot afford to lose. These items often include automobile, home, business, and personal property.

Automobile insurance comes in six basic types:

- **Bodily injury liability** provides money to pay claims against you and the cost of your legal defense if your car injures or kills someone.
- **Property damage liability** provides money to pay claims and defense costs if your car damages the property of others.

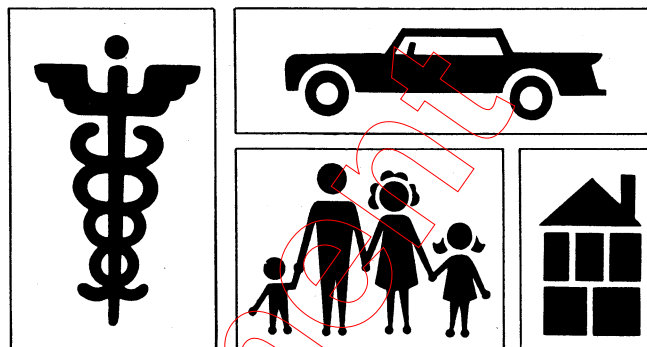
- **Medical payments insurance** pays medical expenses resulting from accidental injuries. Covers you and your family as well as other passengers in your car.
- **Uninsured motorist protection** pays for you and your passenger's injuries if they are caused by an uninsured or a hit-and-run driver.
- **Collision insurance** pays for damage to your car resulting from a collision or from overturning.
- **Comprehensive physical damage insurance** pays for damages when your car is stolen or damaged by fire, flooding, hail or other perils (but not when it is damaged in a collision or when overturned).

How much automobile insurance do you need? Consider:

- Your financial responsibility. Every driver has a responsibility not only for driving in a safe manner, but also for injuries or damages he or she might cause. Most states have laws which make it important—or even mandatory—to have insurance. Indiana requires you to file a report if you have an accident involving bodily injury or substantial property damage. You must present proof that you can pay damages up to amounts required by law or post bond for three years. An insurance policy is proof.
- Your car. If you drive an older model, its value might be low when compared to the cost of collision coverage. In this case, you may decide not to buy collision insurance.
- Your personal finances. Collision and comprehensive coverages are available with a "deductible." This means that, as the insuree, you agree to pay a specified amount—the first \$50, \$200 or \$500—of damage to the car in each loss and the insurance company agrees to pay the remainder. By eliminating the cost of processing small claims, the company can provide such coverage at a lower price. You must decide whether you prefer full coverage, a small deductible at a higher price, or higher deductible at a lower price.

Homeowners policies come in a number of forms to cover both property and liability. Property coverage includes garage, house and other private buildings, and personal property. Liability covers individuals injured on your property, your damage to someone else's property, and medical payments for the injured.

Renters need insurance for the coverage of personal property and liability. So the type of coverage for renters and homeowners is basically the same. Homeowners have additional coverage for the buildings.



## GENERAL INFORMATION

How much property insurance should you have?

At least 80 percent of the total replacement value of the house needs to be covered. If the insurance equals 80 percent of the replacement value, then you can collect the full replacement value when a total loss, i.e., fire, tornado, etc. occurs.

It is very easy with the current rate of inflation to be underinsured. Homeowner insurance policies need to be reviewed each year. If you are underinsured and have a loss, you will only get a portion of your cost covered. Specifically, you will be paid only the portion of loss equal to the amount of insurance in force, divided by 80 percent.

Deductible clauses for health and property insurance:

All insurance is less expensive the higher the deductible clause. In other words, the more you can afford to lose before the insurance coverage begins, the lower the cost of the insurance. For financial security, be aware of what insurance coverage you have and what the deductible clause is.

Remember, no one can ever afford to be insured for all the minor expenses that occur to property or is related to doctors' visits (health).

## PROTECTION COVERAGE FOR THE FAMILY

Fill in the table with the appropriate information. Look at your policies to find the information. Use the due date of premium to help you spread out your insurance payments.

If you find most of your payments are coming in two or three months of the year, negotiate a new time with your insurance agent. For instance, if most of the premiums are due in June and December, you might want to make some due in May and November, and others in February and August, etc.

To change the month the policy payments are due might cost you a few dollars for the book work, but it might make the payments easier for you.

Risk protection needed by each family is different. It depends upon factors such as age of adults, number of dependents, kinds of ownership, state of health, and financial security.



Insurance is a legal contract which defines both the insurance company's and your duties and responsibilities. It's important for you to know what you own in terms of insurance.

- Know the kinds of coverage you have. (If you don't, ask questions until you understand.)
- Report to your insurance agent or company anything that might affect your policy, such as an additional family member, another car, etc.
- Report all claims or accidents promptly and accurately.
- Take care of yourself and your property.

### REFERENCES

Beal, E. "Insurance," unnumbered mimeograph, 1979.

Gaddis, C. "Buying Health Insurance" HE 558, Indiana Cooperative Extension Service, Purdue University, West Lafayette, Indiana, 1971.

\_\_\_\_\_. "Auto Insurance Basics," Insurance Information Institute, New York, New York, 1980.

## PROTECTION COVERAGE FOR THE FAMILY

Fill in the table with the appropriate information. Use your policies to find the information.

I. HEALTH	COMPANY	WHO'S COVERED	AMOUNT OF COVERAGE	DEDUCTIBLE CLAUSE	DUE DATE(S) OF PREMIUM
II. LIFE					
III. PROPERTY					

NEW 2/81